

## Current Support Brief

THE POLISH ECONOMY IN 1962:  
AGRICULTURE SLOWS PROGRESS



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THE POLISH ECONOMY IN 1962:  
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In spite of an unusually cold winter and difficulties in agriculture and foreign trade, the Polish economy in 1963 probably will continue to grow fairly rapidly and without major disruptions. Popular dissatisfaction is likely to increase, however, as a result of the expected stagnation of consumption for the second successive year, and the regime consequently may be forced to modify its policies in favor of the consumer. National income in 1962 compared with 1961 increased by only one-third of the planned rate, personal consumption per capita was almost unchanged, output in Poland's large food-processing industry barely rose, and exports of agricultural products and processed foods declined from the previous year. Nevertheless, production in most branches of industry other than food processing continued to grow rapidly -- in most cases exceeding the annual plan by a substantial margin -- and investment showed a large increase.

In their economic plan for 1963 the Poles have set more conservative goals than those for 1961 and 1962 -- in part because the regime expects that the decline in agricultural production in 1962 will continue to hinder economic growth in 1963 and in part because conservative planning is gaining wide acceptance in the Soviet Bloc. Although Poland probably will have difficulties in foreign trade this year and may have trouble increasing consumption even at the moderate planned rate, it is likely that investment will again show a sizable increase and that most branches of industry will continue to grow rapidly, probably considerably exceeding the plan for industrial production. There appears to be general support within the Polish communist party and government for the continuation of existing lines of economic policy, and apart from some revision of the 1963-65 investment program, designed to assure rapid completion of key industrial projects and to stimulate the growth of agriculture, the outlines of the current Five Year Plan (1961-65) will remain substantially unchanged. The public undoubtedly is disappointed, however, by the negligible growth of consumption that took place in 1962 and that is likely to

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occur again in 1963, and popular dissatisfaction may lead the regime to devote more effort to fulfilling its promise of a steady moderate annual increase in consumption as called for in the Five Year Plan.

1. Performance of the Economy in 1962

Gross agricultural production in 1962, although slightly above the average for the past few years, dropped 8.5 percent from the record level of 1961. Because of poorer weather in 1962, crop production was more than 14 percent lower than in 1961, and animal production (animal products and additions to herds) failed to increase above the level of the previous year. Yields were fairly good for wheat, rye, barley, and rape seed but below average for most fruits and vegetables, potatoes, and forage crops.

The drop in agricultural production led to a decline in food processing in the second half of 1962, which slowed the growth of industrial production. Total industrial production increased by 8.4 percent compared with an increase of 10.5 percent in 1961 and an annual average of 10 percent in 1956-60. Production in most branches of industry other than food processing and textiles, however, increased at rates only slightly less than the rapid rates achieved in 1961 (see Table 1\*).

Poor results in the food-processing industry last year also caused labor productivity in industry as a whole to increase only about 4 percent compared with a planned rate of 5.5 percent. In most branches other than food processing, labor productivity rose about as planned. Overfulfillment of production plans in these sectors, however, was achieved largely by above-plan increases in employment. Although plans for production of some construction materials were underfulfilled last year, there is no evidence that either industrial production (other than food processing) or investment was hindered by shortages of key materials.

The Poles did very well in executing their 1962 investment program. Total investment outlays rose 9.4 percent, about as planned, and industrial investment was nearly 16 percent higher than in 1961. Although

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\* Table 1 follows on p. 3.

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Table 1

Rates of Growth in Selected Branches of Industry in Poland  
1958-60, 1961, and 1962

	Percentage Increase Compared with the Preceding Year		
	Average Annual 1958-60	1961	1962
Metallurgy	7.7	11.4	8.0
Machine building and metal products	17.9	17.8	15.6
Chemical products and rubber	18.6	19.1	15.5
Wood processing	6.3	8.3	8.2
Textiles	7.8	6.9	3.2
Clothing	3.1	11.2	11.0
Food processing	7.1	6.9	2.4

some projects scheduled for completion in 1962 had to be carried over into 1963, Poland's performance in completing key projects last year was better than usual. The execution of the 1962 program required considerable effort in the last 6 months of the year to make up for the lag in construction caused by bad weather in the first half of the year.

As a result of the decline in agricultural production, per capita consumption rose only about 1 to 2 percent in 1962 compared with a planned increase of nearly 3 percent. Real wages of workers outside agriculture rose only 1 to 2 percent, but there was some increase in the number of wage earners per family, so that family incomes rose slightly more. Rural incomes probably declined slightly. Retail sales in the socialized trade network increased by 6.4 percent last year, but the price of many foodstuffs, particularly fruit and vegetables, rose during the year, cutting the increase in sales to about 4.5 percent in real terms. Sales of most quality foods rose moderately in 1962, although not so much as planned. Supplies of most nonfood consumer goods also increased, but assortments of these goods frequently were not in accord with consumer demand, so that, as in 1961, the population chose to put a large share of its increased money income in savings deposits.

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Poland's foreign trade deficit increased sharply last year, amounting to US \$239 million. This increase was due to an increase of 19 percent in imports from the Bloc compared with an increase of 10 percent in exports to the Bloc. Poland was unable to overcome its perennial payments problems with the developed West. Although its import surplus was considerably reduced (from \$83 million in 1961 to \$34 million in 1962), the improvement in Poland's trade balance fell far short of that planned, because of the decline in agricultural output. Exports of food and other agricultural products, most of which go to developed Western countries, fell short of plan, and the reduced harvest necessitated unexpectedly large imports of grain and fodder from the West. New long-term credits from the US, which raised Poland's indebtedness to the US to more than US \$500 million, financed a substantial part of the unplanned imports of grain, but Poland probably had to increase its short-term indebtedness to balance its payments with Western Europe.

2. Plans for 1963

The goals for economic growth in 1963 are in general the most conservative for any year since 1960 (see Table 2\*). These goals reflect not only the expectation of the regime that some of the ill effects of last year's decline in agricultural production will continue to be felt in 1963 but also a wider acceptance in the Bloc of a more restrained approach to economic planning. Polish plans had been characteristically conservative and greatly overfulfilled in 1957-60. In 1961-62 the Poles began to plan for more rapid rates of growth, possibly following the example of the more ambitious countries of the Soviet Bloc. Two of these countries, East Germany and Czechoslovakia, have encountered growing economic difficulties, however, and consequently have adopted a conservative approach themselves.

The Polish plan for 1963 calls for an increase of 5.8 percent in agricultural output, a goal that may be difficult to achieve. Assuming normal weather this year, the regime expects an increase of 11.6 percent in crop production. Because of a shortage of fodder from last year's harvest, however, animal production is scheduled to decline

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\* Table 2 follows on p. 5.

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Table 2

Indicators of Economic Growth in Poland a/  
1961-63

	<u>1961</u>		<u>1962</u>		<u>1963</u>
	<u>Planned</u>	<u>Actual</u>	<u>Planned</u>	<u>Actual</u>	<u>Planned</u>
	Percentage Increase Compared with the Preceding Year				
National income	5	8	7	2.5	5.2
Net fixed investment	9.5	7.9	9.6	9.4	8.3
Total consumption	4.1	6.7	3.8	3.0	3.8
Gross industrial production	7.6	10.5	8.4	8.4	5.0
Gross agricultural production	4.3	10.9	1.2	-8.5	5.8
Exports	7.8	13.5	8.5	9.5	4.8
Imports	9.4	12.9	3.6	11.8	0.8
	Million US \$				
Foreign trade deficit	207	183	116	239	175

a. Official Polish definitions and data are used.

about 2 percent. Even the maintenance of livestock herds and production of meat at a point near last year's levels will require a large increase in imports of fodder this year.

An increase of 5 percent in industrial production has been planned for 1963, a rate below those planned and far below those realized in any of the past 5 years. A large part of the reduction in the rate of growth is accounted for by the very small increase planned for food-processing output and the slight decline planned for production of textiles and leather goods. Somewhat lower rates of growth than in 1962, however, also are planned this year for most other branches of industry. The reduced

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ability to export agricultural commodities and processed foods, along with the need to import large quantities of grain, is putting a strain on Poland's balance of payments in 1963 that the regime is trying to mitigate by holding down imports of some industrial raw materials. The textile industry, whose output has been growing faster than domestic demand in recent years, will be most affected by this restriction.

The unusually severe winter of 1963 had a heavy impact on Polish industry, causing underfulfillment of production plans for January and February. Difficulties in extracting and transporting coal as well as increased household consumption led not only to a shortfall in coal exports but to shortages of coal and electric power that caused temporary shutdowns or below-capacity operations at many industrial plants.

Although production losses for the first 2 months of 1963 may cause underfulfillment of the annual plan in some areas, it is likely that the increase in total industrial production this year will still be well above the planned 5 percent. The plan for 1963 probably is based on a more conservative appraisal of industry's capabilities for growth than was the case in plans for 1961 and 1962. In particular it seems to rest on minimum assumptions of Poland's ability to increase imports and to raise labor productivity. Moreover, the regime probably believes that by setting less demanding targets it will encourage improvements in the quality and efficiency of production.

Total investment is to increase 8.3 percent in 1963 and investment in the socialized economy about 9.6 percent. These are somewhat lower goals than those set for 1961 and 1962, in accordance with the decreasing rates of increase called for in the latter years of the Five Year Plan. After a review of its investment program during 1962 the regime felt that planned outlays were insufficient to carry out scheduled projects in mining and heavy industry and to promote rapid growth in agriculture. For this reason, total investments for 1963-65 are to be slightly higher than originally planned, and there is to be some shift in outlays to these priority sectors. In accordance with these revisions, the plan for 1963 calls for a much larger share of investment for agriculture than originally planned; slightly higher shares for heavy industry, construction,



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and science and education; and smaller shares for light industry, food processing, and most nonproductive sectors. The discovery during the recent severe winter that transport facilities were insufficient to accommodate heavier than normal traffic also has led the regime to plan larger investments in transportation, particularly in rail facilities.

Most difficult to achieve will be the regime's goals for consumption. The 1963 plan calls for a rise of 3.8 percent in consumption, about the same rate planned for last year. In view of the expected decline in animal production, however, per capita consumption of meat and dairy products probably will increase little, if at all, and it is questionable whether the regime can rely only on nonfood goods, especially consumer durables, to achieve the planned increase in total consumption. Even if sufficient quantities of nonfood goods are offered, buyer resistance may be encountered, as in the past, unless quality and assortment are improved, and the regime may therefore have considerable difficulty in balancing the consumer market during 1963. Anticipation of possible inflationary pressures in 1963, as well as fuel shortages last winter, may have been a reason for the recent increases in prices of coal, electricity, gas, and other fuels for household consumption. These increases, added to a continued rise in food prices since the beginning of 1962 and to a stagnation of consumption since 1961, are bound to cause dissatisfaction and may force the government to devote more attention to the consumer, possibly at the cost of reducing somewhat the growth of investment.

Although Poland has experienced a number of economic difficulties since the beginning of the current Five Year Plan period, these difficulties generally have been less severe than those in other industrialized Satellite countries. Poland's predominately private agriculture has continued to show much better results than the largely collectivized agriculture of East Germany, Czechoslovakia, and Hungary. Shortcomings in industry -- such as the continued tendency to produce items of low quality in an inappropriate assortment and with obsolete technology -- have not greatly reduced the rate of industrial growth in Poland as they have in East Germany and Czechoslovakia. The Poles owe their superior performance in industry not only to a more abundant labor supply and to the

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fact that they have had wider opportunities for easy gains in economic efficiency but also to more realistic and flexible economic planning, which prevented serious deficits in supplies and minimized the disruptive effects of nonfulfillment of plans in particular sectors. Partly because of their milder nature, economic problems in Poland have provoked neither the reconsideration of economic policies nor the major revisions of plans that have taken place in East Germany and Czechoslovakia. On the contrary, the Polish regime has indicated that it intends to deal with its problems primarily on a technical level. Evidence of this has been seen in two recent Party plenums, which have dealt with technology in industry and with technical and organizational problems in agriculture, avoiding any discussion of possibly controversial issues of policy.

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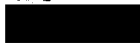
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